

AGENDA ITEM: PAG09-01, March 2023

PAG Supplementary Statement

Summary	<p>This paper sets out:</p> <ul style="list-style-type: none"> • Background to Supplementary Statement development • The approach and key principles • Considerations around inclusion of the statement within general purpose financial reports, inclusion of the guidance within INPAG, and auditability
Purpose/Objective of the paper	To understand use cases and challenges with respect to the Supplementary Statement, in the context of General Purpose Financial Reports
Other supporting items	<p>Appendix 1 – Terms of Reference for Supplementary Statement Working Group</p> <p>Appendix 2 – Supplementary Statement Draft Guidance</p> <p>Appendix 3 – Supplementary Statement Draft formats and notes</p>
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Actions for this meeting	Advice
Acronyms	<ul style="list-style-type: none"> • DRG – Donor Reference Group • GPFR – General Purpose Financial Reports • IFR4NPO – International Financial Reporting for Non-Profit Organisations project • INPAG – International Non-Profit Accounting Guidance • NPO – Non Profit Organisation • PAG – Practitioner Advisory Group • SSWG – Supplementary Statement Working Group • TAG – Technical Advisory Group

1. Background to Supplementary Statement

1.1 Purpose of INPAG

INPAG is intended to provide guidance on the presentation of 'general-purpose financial reports'. These are designed to be useful to a range of users, and are distinguished from 'special purpose financial reports' which are prepared for a specific user or group of users.

1.2 Primary and secondary users

INPAG Exposure Draft 1 identifies the primary users for NPO general purpose financial statements as:

- 1) Providers of resources to the NPO
- 2) Service users (also known as clients / beneficiaries / affected communities) of the NPO
- 3) Representatives of the above (such as civil society groups, regulators etc)

INPAG also identifies secondary users, including the following two groups that have the ability to request special purpose information from the NPO:

- 1) Governors or Trustees of the NPO
- 2) Current donors to the NPO

1.3 Demand for improvements to donor reporting

Providers of grant funding to NPOs frequently require special-purpose financial (and other) reports, specific to the activities they are funding. Numerous comments during our stakeholder outreach since 2020 referenced the lack of harmonisation in donor reporting formats being a burden to NPOs. Funders and auditors also acknowledged that the inability for grant level reports to be reconciled or cross referenced to entity level audited accounts is also a challenge with respect to assurance of special-purpose reports.

1.4 Proposal for Supplementary Statement

In September 2022, it was proposed that the project should develop a standard format for an optional supplementary statement that can meet the financial accountability needs of providers of grant funding. Its objective was to present key auditable financial information about a specific project or grant (or projects/grants) in a way that could be useful to the grantor for accountability purposes.

Accordingly the Supplementary Statement Working Group (SSWG), was set up to develop proposals in this regard, comprising 6 members from the Donor Reference Group, Practitioner Advisory Group, Technical Advisory Group and a Country Champion. A Technical Lead, Siham Bortcosh, was appointed to work with and on behalf of the group in this regard.

The Terms of Reference for this group is attached at Appendix 1.

2. Progress to date

The SSWG has met three times to date and has developed draft Supplementary Statement Guidance (see Appendix 2) and Formats (see Appendix 3). The process followed is set out below:

- The Technical lead conducted semi-structured interviews with each SSWG member individually (November 2022)



- From these interviews, a set of principles and proposals for the Supplementary Statement Format were developed and reviewed by the SSWG (January 2023)
- Draft Guidance Notes for the proposed Supplementary Statement were developed and reviewed by the SSWG (February 2023)
- The DRG reviewed the proposals, and all members present expressed strong support for the approach. (February 2023)

Feedback is being sought from PAG and TAG, as a basis for deciding next steps.



3. Proposed format

Supplementary Statement of Income, Expenses and Capital Costs for <i>[INSERT reference for or name by which the Specified Activities are known, for example, a grant or project name OR INSERT the entity's name]</i>		
For the year ending XX XX 202X		
	Note	Currency
Income		
Grants and donations		
Other income <i>(list out)</i>		
Total income		
Expenses		
Direct expenses		
Employment		
Travel and subsistence		
Supplies and materials		
Running costs, external services and other		
Gifts in kind		
Grants payable		
(Optional) Support costs		
Total expenses		
Foreign currency translation gains/losses		
Transfers		
Other financial changes		
Change in grant <i>[fund]</i> balance		
Opening balance		
Closing balance		
(Optional) Capital Costs		
Expenses recognised		
Less: depreciation or amortisation charged		
Add: capital costs incurred		
Total costs		
Balance after capital costs		

4. Approach and key principles

- 4.1. **Inclusion within GPFR:** To merit its inclusion within INPAG, the Supplementary Statement must be useful to general readers of the financial statements, and to primary users in particular. The proposals have been developed with this in mind.
- 4.2. **Presentation of Supplementary Statements:** An NPO may choose to present one or more Supplementary Statement(s), each for a different set of Specified Activities. Each Statement would be accompanied by its own notes.
- 4.3. **Name of the Supplementary Statement:** The proposed full name is ‘Supplementary Statement of Income, Expenses and Capital Costs for [Specified Activities]’
- 4.4. **Scope of Supplementary Statement:** The Specified Activities covered by a Supplementary Statement may relate to a specific activity, grant, project, programme or to all the NPO’s activities, as defined by the NPO.
- 4.5. **Basis of presentation:** The approach has been to develop a “core” or basic format in a specified form, to which all Supplementary Statements must adhere. This basic format will be aligned with the general purpose financial statements, through the following requirements:
 - Funds with and without restrictions must be shown separately
 - The expenses headings used in the Supplementary Statement must align with the primary statements
 - The basis of recognition of income and expenses must align with INPAG
 - Any items that are included within the Statement of Changes in Net Assets within the primary financial statements must be separately identified
 - There must be alignment with any movement in funds note shown in the general purpose financial statements
- 4.6. **Capital Costs:** where NPOs receive funding for the acquisition of capital items, such costs are excluded from the Statement of Income and Expenses, but NPOs will be able to show the costs incurred in relation to capital items as a charge against the relevant funding in the Supplementary Statement.
- 4.7. **Notes to the Supplementary Statement:** notes will be required with a Supplementary Statement to ensure that the information required by the Guidance is disclosed, and to provide information that is not presented in the Supplementary Statement but is relevant to an understanding of the Statement.

- 4.8. **Flexibility and variation:** notwithstanding the need to comply with the basic requirements described above, the proposals recognise that for the Supplementary Statement to have utility, NPOs will need to be able to make certain adaptations in order to address their own individual circumstances and reporting requirements. The proposals therefore provide for a range of options and variations that NPOs can take advantage of to present and disclose additional information (over and above the basic format) to meet their needs and to ensure that users can obtain an adequate understanding of the Supplementary Statement.

The principal choices that have been built in to ensure that the Supplementary Statements meets NPO and user needs include the following:

4.8a) Expenses breakdown:

The NPO may provide more detailed expenses subheadings on the face of the Supplementary Statement, as long as they are “nested” within the required main headings; or they may supply the additional expense breakdowns within the notes to the Supplementary Statement.

4.8b) Expenses basis of recognition:

The NPO may show, in the notes, the expenses on a different basis of recognition (for example, if the relevant donor rules require it) as long as it explains the alternative basis. This might be if, for example, INPAG requires the recognition of a cost with respect to a constructive obligation with respect to the Specified Activities, that the funder does not recognise.

4.8c) Support costs¹:

Subject to decisions yet to be made about expenditure classification headings within INPAG, NPOs will have the choice of presenting support costs as a single line charged within the Supplementary Statement, or allocating such costs across the direct expenses headings, depending on the reporting needs it is aiming to meet. It must explain where such costs are included in the general purpose financial statements.

4.8d) Optional Cash reconciliation:

The NPO may present a reconciliation of the income amounts within the Supplementary Statement to the cash amounts received in the period in relation to the Specified Activities. It may also present a reconciliation of the expense amounts within the Supplementary Statement to the cash amounts expended in the period in relation to the Specified Activities. If the NPO presents both reconciliations to cash amounts, it may also present a grant or fund cash balance at the end of the reporting period. This would allow NPOs to use the Supplementary Statement format for cash drawdown purposes, if this was agreed with the donor.

¹ Also known as indirect costs

4.8e) *Format variations using data from current-year (functional currency) ledger:*

As well as the basic format which is mandatory for any Supplementary Statement presented, the NPO may choose to disclose the following additional information in relation to the Specified Activities on the face of the Supplementary Statement.

- ***Donor reporting date:*** the amounts for each line split into two time periods which together make up the reporting period of the general purpose financial statements. This would allow the NPO to split the Supplementary Statement report so that it can show the information to the donor's reporting year, where this is not the same as the NPO's accounting reference date.
- ***Multiple grants:*** more than one grant or donation may be included in the Supplementary Statement, depending on the income related to the Specified Activities. The NPO may include each such grant or donation, with the related expenses, as a separate column in the Statement. This would allow the NPO to report on a programme of work funded by more than one grant, for example, while identifying each grant separately.
- ***Funds without restrictions:*** the NPO may include expenses funded from funds without restrictions in the Supplementary Statement. Where it does so, funds without restrictions must be shown as a separate column from funds with restrictions. This would allow NPOs to report on the any contribution made from unrestricted funds to the activities funded by a particular grant, for example.

4.8f) *Format variations with additional data sources:*

As well as the basic format which is mandatory for any Supplementary Statement presented, the NPO may choose to disclose the following additional information in relation to the Specified Activities on the face of the Supplementary Statement.

- ***Donor currency amounts:*** the amounts in the currency in which the income was provided to the NPO (ie the donor currency).
- ***Budget amounts:*** the budget amounts associated with the Specified Activities (ie the budget agreed with the donor(s) funding the Specified Activities).
- ***Multi-year amounts:*** the prior period amounts relating to the Specified Activities, each in a separate column. This allows cumulative reporting, year by year, on multi-year grants.

5. Other key points

Other key points to note are as follows:

- 5.1. ***Movement of funds note:*** the Supplementary Statement could be especially useful if combined with and reconciled to a movement in funds note included within the general purpose financial statements within INPAG, showing a summary of the movements (total income, total expenditure and transfers) on the major funds of the NPO. A reconciliation of the Supplementary Statement to the relevant line within such a note would strengthen

assurance and transparency in relation to reporting on funding considerably. An example format for such a note is shown below.

Movement in Funds	Opening Balance	Income	Expenses	Surplus/ deficit	Other gains and losses	Transfers	Closing Balance
Funds with restrictions							
Grant / Programme 1							
Grant / Programme 2							
Grant / Programme 3							
Other funds with restrictions							
Total funds with restrictions							

- 5.2. **Expenses classification:** Expenses classification on the face of the primary statement has not yet been proposed within INPAG, but is planned to be included within Exposure Draft 3. The Supplementary Statement Guidance Notes make proposals for a relatively small number of comprehensive categories using a natural classification, and provide definitions for these categories. This area will need to be revisited depending on what INPAG proposed in due course.
- 5.3. **Support costs:** the approach taken in the proposals for the inclusion of support costs within the Supplementary Statement is designed to allow flexibility so that the NPO can report such costs appropriately depending on the funding arrangements it has. INPAG has not yet determined an approach to the classification of support costs or equivalent. It would be very useful if INPAG adopted an approach of defining, calculating and disclosing support costs in a note, and permitting them to be allocated to Direct costs, as this would align with the proposed approach here, and provide appropriate reporting flexibility.
- 5.4. **Foreign currency translation rates:** the basic format must be presented using the NPO's presentation currency. In order to ensure that the Supplementary Statement has as much utility as possible, an option has been included that allows the NPO to present the equivalent amounts in the currency in which the income for the activities was received (ie the donor currency) in a second column alongside the presentation currency column. This option will enable the NPO to use the Supplementary Statement in a range of funding arrangements.

Question 1: Do PAG members have any general questions about the overall purpose and proposals relating to the Supplementary Statement?

Question 2: What use cases and advantages can members see from the use of Supplementary Statements?

6. Issues identified

5.1 Value of Supplementary Statements within GPFR, to primary users

To justify inclusion within the GPFR, any supplementary statements should be of value to primary users, not just to the funder of a specific set of activities. The following areas of added value have been identified:

- Prospective providers of finance, including prospective donors, are interested to see that an NPO has the capacity to track income and costs relating to a particular project or grant.
- The risk of unidentified double funding fraud, which is a key concern to the donor community generally, is mitigated through the presentation of Supplementary Statements that are reconciled to a Movement in Funds Note.
- Where project / grant based funding forms a significant proportion of the income and expenses of an NPO, the presentation of Supplementary Statements improves the quality and reliability of audit assurance on the primary financial statements and notes.

5.2 Positioning of Supplementary Statement within GPFR

The current proposal is for any Supplementary Statements published to be positioned after the last note to the GPFR, with each Supplementary Statement followed by its own set of notes.

5.3 Assurance

There is a need to ensure that there is clarity to users about the scope of any audit opinions expressed with respect to the GPFRs, especially if assurance is NOT given with respect to Supplementary Statements. If any assurance IS to be provided on the Supplementary Statements, the nature and positioning of such opinions, will need careful consideration.

5.4 Variation and flexibility

While the core information in the Supplementary Statement remains constant, (namely the amounts for the year, expressed in the 'home' currency), the proposals include flexibility in terms of additional columns and reference to other comparative information such as budgets or amounts expressed in different currencies. While this flexibility increases the utility to current funders, it risks reducing consistency, and increasing audit burden (although, conversely, it may reduce the need for additional audits in relation to special purpose reports).

5.5 Consistency of style and approach with INPAG

The Supplementary Standard Guidance includes a higher level of detail and specificity, and adopts a more rules-based than principles-based approach, compared to the rest of INPAG.

5.6 Inclusion and positioning of Guidance within INPAG

There are various options for how and when the SS Guidance could be incorporated within INPAG, including:

- Include some or all of the SS Guidance within main INPAG Guidance (2025)
- Include some or all of the SS Guidance as an Annex to INPAG (2025)
- Publish comprehensive SS Guidance separately to INPAG (2025)
- Include some of the SS Guidance as an Annex to INPAG (2025) and publish comprehensive Guidance separately, after deeper engagement with more members of the donor community.

Question 3: What are the views and recommendations of PAG members with respect to these issues? Are there other issues not identified?

Question 4: What are PAG members views on the options for approaches and timing with respect to incorporation of the Supplementary Statement Guidance with INPAG?

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